

A breather for the stock market

(continued from page 3)

reasons to have hope for a better future. It will not be a quick solution. Housing will likely not be corrected for another decade or so. The possibility of a European recession/depression is high. Higher taxes and higher inflation are real possibilities. But with all of these issues, the spirit of the American people, work ethic and its desire to remain a free, democratic country will result in us evolving from this crisis stronger, with changes that need to be made before we hand the future of America to our

kids. This is a good thing, and not unlike the way God tends to work in our lives.

I am more certain than before of all the exciting possibilities evolving for those who want opportunity.

Please contact the office if you wish to discuss any concerns with me or any member of our powerful team, the largest independent group of CFPs in our region.

Until next time,
– Joel

Contact Us

Office hours: Monday - Thursday | 8 a.m. - 5 p.m.
Friday | 8 a.m. - noon

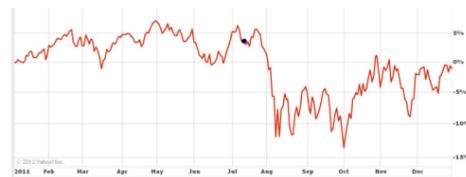
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In The News

2011 stock market: What a roller coaster!

For those of us who like thrill rides, the stock market in 2011 did not disappoint. As you can see from the chart of the S&P 500 for the past year, we started out on the kiddie coaster with a couple of small peaks and valleys. By the end of July, however, the ride changed quickly to the Loch Ness Monster at Busch Gardens in Williamsburg (check out YouTube for a front-row seat on the famed coaster).



For those of you who say, "This doesn't seem normal," you're right. On average,

we can expect to see three 5% pullbacks each year with one of those likely to be at least 10%. In 2011, by my count, we had 10 pullbacks of 5% or more and two of those were 10% or worse. As a comparison, 2010 was much more average with four pullbacks of 5%, one of those being more than 10%.

Another reason 2011 felt so unsettled was that stocks seemed to move in lockstep with each other. In fact, there were 69 days where 450 of the S&P 500 stocks moved together, either up or down. In six of those days, at least 490 of the S&P 500 stocks moved together. To put that in perspective, until 2011, there had only been 5 days total where at least 490 stocks of the S&P 500 had

moved together in the 54-year history of the index!

Will 2012 bring more of the same? The stock market hates uncertainty and with all the concerns about the economy and this being an election year, it seems that the odds are in favor of continued volatility. Now more than ever, we believe our Yale Endowment Model approach to reducing the volatility – using diversifying asset classes that historically don't move with stocks – will help keep your roller coaster experiences confined to the amusement parks instead of your portfolio statements.

– Mike Jones

It's that time again: tax document mailings

Turning the calendar to a new year also means turning our attention to preparing year-end tax returns.

First Clearing, LLC will use an IRS-approved extension to mail 1099 forms to clients in February. This approach is used because of the increasing complexity of tax reporting and successful reduction of amendment rates. First Clearing expects to complete the mailing by February 15.

The mailing will be done in batches. If you have multiple accounts, you may receive 1099 forms as early as late January, but not receive 1099s for all accounts until mid- to late February. Please allow adequate time for mailing before contacting our office for missing 1099 forms. March 1 might be a good

target date to see if you have received all your 1099 information.

As you begin to gather your tax documents for your accountant, please keep the following in mind:

- You will not receive a 1099 for an IRA unless you received a distribution from the account.
- If you do receive an amended 1099, please make sure you provide your accountant with both the amended and original 1099. Long and short term capital gain / loss information, as well as cost basis, is only reported on the original 1099.
- Capital gain / loss information can also be found on your monthly account statements and a summary is included in your year-end

account statement.

- Schedule K-1s (for some mutual funds and partnerships such as oil & gas, Triton Pacific, note programs, some managed futures like Aspen) are mailed by the general partner, not First Clearing. The mailing deadline for Schedule K-1s is March 15.
- Our advisors strongly encourage all clients to talk with their CPAs about their situation and consider filing an extension. Ask your CPA how they would like to receive your tax information knowing that some of your information may be delayed.

– Robin Hoback

Life insurance a vital tool for future tax planning

I love this story: the reason why life insurance death benefit isn't taxed is because life insurance came to being before the United States had income taxes. Think about it, back in the 1800s, the west was young but businessmen, like today, knew that they wanted to protect their families. One particular young life insurance company nearly went out of business due to a train derailing, on its way "out west."

Why does the government allow life insurance to be tax-free even today? Basically, the government wants people to take care of their families. Regardless of what tax structures are in place at the time of your death, life insurance death benefits are tax-free.

These days, it is hard to comprehend the "wild west" days, but life insurance and the other insurance products are very important.

Welcome to the present. April 15th is right around the corner, and most of us look at the bottom line, "wow" we pay a lot of taxes!

In the insurance world, is there anything that you can do today, that can help you by April 15th, 2012? Not really. But, are there things you can do today that will help you with your tax planning in the future? Resoundingly, "YES!"

First, we are talking about the basic insurance products of life insurance, disability insurance, long-term care insurance, and annuities. There are tax benefits with each of these classes of insurance products.

Since this series of newsletter articles started with life insurance, let's continue to talk about it. Life insurance is a multipurpose financial vehicle that can tax shelter savings while you are living, and provide a tax-free death benefit when you pass. First, you always want to purchase life

insurance for the death benefit. We, here at JSW Financial, can help you determine how much life insurance you need and may want. Secondly, we will help you determine the "type" of life insurance. Do you want term life insurance, or some form of permanent life insurance, or a little of each?

The permanent form of life insurance is the "type" of life insurance that can help you save, while you are still living, in a tax-free environment, no matter how much money you have or don't have. Permanent life insurance also, very importantly, makes sure that no matter how old you are when you pass away, you will have life insurance.

When I first got my personal life insurance (outside of my employer, and in my mid 30s) "I got as much as I could" (this may or may not be something you wish to do. I am only using "me" as an example). At the time, I could buy a little permanent, and a lot of term life insurance. I wanted to "take care of my family" no matter what the circumstances. Over the years, I have converted some of my term insurance to permanent life insurance so I have an additional tax efficient savings vehicle for my future, and no matter how long I live, I know I will have life insurance in place.

The cash in the life insurance grows in a tax-free environment. If, at some point in the future, I want to supplement my retirement savings, or pay for my children's education, or take an around-the-world vacation, I can use the cash from my life insurance. I will not have to pay any taxes or penalties to access this money.

Let us help you with your present and future tax planning, with or without insurance products.

We wish you a happy and healthy 2012!

– Sara Bohn

Save the date



Come hear Joel play the saxophone at The Old Pros Band Big Benefit Concert

- Saturday, February 25, 2 p.m. at The Lyric Theatre

Client Appreciation Event

- Tuesday, March 27, 6:30 p.m. at Blacksburg Holiday Inn

Did you know?

Even if you file for an extension, you must still estimate and pay any taxes owed by April 15, not by the extension date.

Tax tips

- Consider filing an extension. Due to the nature of many of your investments, reporting is delayed. Please work with your accountants and alert them to this issue.
- Wait until March 20 to take information to your CPA. Allow your CPA to know that some of your tax information may still be outstanding. Ask your accountant what works best: "estimates and extensions," providing the data in stages or some other plan.
- Review your information. If you see that cost basis is missing, call our office immediately. It takes time to research your accounts. Tax information requests can take at least 3-5 business days.
- If you are traveling during this tax season: Please call our office.

A breather for the stock market

With all the chatter related to the Republican primaries, one would have thought the stock markets would have reacted. These are my current thoughts as the Republican presidential race moves along:

- The market will remain benign until after the election. A positive jump right after election should be expected because the uncertainty ends, which markets like. This is regardless of who gets elected, in my opinion.
- Problems in the economy do not go away, even if control changes in all branches of government. We at JSW Financial are currently planning our strategy as we enter the "aftershock" of what we believe to be some of the final shoes to drop domestically and globally. Some will surprise you. My closing remarks have some hints of our thinking.
- Traditional election years have a positive stock market return, and cumulatively with the year before average 25% gains, compared to the first two years of an administration of 10%. But recently there have been exceptions to this statistic, like 2008 (37% drop). Source: Bloomberg.
- Expect the economy to do well in the final year of a presidential term, due to the incumbent party doing all it can to get re-elected. Currently the economy is inching its way in the right direction on several fronts, although very, very fragile and vulnerable to global issues yet unresolved:

- o Around a 3% overall growth rate (GDP) can be expected in 2012, in my opinion.
- o Inventories should rebound due to uncertainty in the small to mid-sized company sector coming out of 2011.
- o Hours worked per week increased 3% in the fourth quarter.
- o Retail sales: up 5.1%, excluding autos; autos alone, up 36%
- o Services: weakest area, up 1%
- o Business investment: industrial equipment, software and commercial buildings, up 5%
- o New home building: up 5%; existing homes still a long-term problem
- o Government purchases: down 3.5% (Sources: Bloomberg)

So, for the moment, there are facts to support recent increasing job numbers. As usual, so what? Here are some of our thoughts on tweaking our strategies as the gurus "guess" at policy changes. Note: If President Obama gets re-elected, don't expect policies to remain the same.

Obviously, a Republican win will re-shuffle the deck. But regardless, the problems remain. Some of our thoughts:

- Hyper-inflation is being planned for by our managers, who anticipate interest rates to rise.
- Investors should be very sensitive to holding 10-year Treasuries. Pundits have been wrong for two years now, but eventually interest rates will rise and a T-bill has risk. A 1% rise in the 10-year could produce a 7% drop in the price of the bill. It can happen overnight. Same with other fixed-income investments. The interest rate risk is greater than the credit rate risk. Munis can still be good fixed-income investments, but prepare to have price deterioration.
- Depending on how the dollar behaves in relation to settling the global financial crises, it is possible to see JSW advising "not paying of one's mortgage," which is totally contrary to our normal sage advice. No space to explain this one – ask us to explain.
- Expect to add more gold and silver to your portfolios as gold and silver go through a correction.
- If tax reductions become part of the new policy, don't be

...there are a lot of reasons to have hope for a better future.

surprised to see companies doubling their dividends to investors as they may no longer be taxed as ordinary income. This will provide additional incentive for the private sector to invest

- in companies of America ... instead of our tax money.
- Alternative investments, as we have been implementing for nearly a decade, will become even more attractive, particularly those that provide a hedge against hyper-inflation and a devaluing dollar, our primary focus for portfolio protection going forward.
- Our clients' cash flow needs will likely be produced by more international bond instruments and definitely large company stock dividends if we get those tax changes.

The good news is that we will have more clarity of the markets as the election moves behind us. Jobs will continue to grow and more opportunities for individuals to retool their skill sets will be forthcoming. Small and mid-sized businesses will be given incentives to risk expanding markets, thus hiring more. The U.S. will be returning to some form of manufacturing economy in the technology areas due to the issue of cyber-security and growing affluence of the workers in countries like China and India.

Overall, there are a lot of

(continue on page 4)

Markets

January 25, 2012

DOW | 12,756.96

Nasdaq | 2,818.31

S&P 500 | 1,326.06